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ANNUAL
REPORT
1974

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FINLAYSON ENTERPRISES LTD.

FINLAYSON ENTERPRISES LTD.

DIRECTORS

G. A. BODDY

F. B. BROOKS-HILL

R. W. FINLAYSON

R. H. HOPPE

D. A. McINTOSH, Q.C.

H. SUTHERLAND, Q.C.

R. G. WILSON

OFFICERS

President - - - - - R. W. FINLAYSON

Vice-President - - - - - G. A. BODDY

Vice-President - - - - - R. G. WILSON

Secretary - - - - - H. SUTHERLAND, Q.C.

Treasurer - - - - - J. C. LONGWORTH

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY

TORONTO, ONTARIO

WINNIPEG, MANITOBA

BANKERS

THE BANK OF NOVA SCOTIA

TORONTO, ONTARIO

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FINLAYSON ENTERPRISES
LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1974

To the Shareholders of

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FINLAYSON ENTERPRISES LTD.

Sales and profits trends commented on in the 1973 annual statement have continued. The Griffiths-Kerr division has had exceptional growth and record earnings. Beauty Industries Limited is also showing increased sales and profits. However, the Wood and Natrop fragrance and cosmetic units have had losses in the first half of the year.

Along with the total sales growth, profits on operations showed a satisfactory increase. However, provision for income taxes more than trebled. The losses in the fragrance and cosmetic units could not be offset, for tax purposes, against the higher profits of the two major operations. As a result, net profit declined from \$57,752 to \$13,485.

In the second half of this year a substantial improvement in consolidated earnings is forecasted. However, in view of the higher tax provision, it is unlikely that the net profit for the year will exceed that achieved in 1973.

Inventories and accounts receivable continue to grow at a high rate partially due to higher sales and also due to much higher costs of materials. This caused increases in Bank interest payments. Despite this, the working capital position of the Company continues at a satisfactory level.

August 13, 1974

R. W. FINLAYSON,
President

FINLAYSON ENTERPRISES LTD.

Consolidated Statement of Profit and Loss (Unaudited)

	Six Months Ended June 30, 1974	June 30, 1973
Sales.....	\$2,981,347	\$2,326,055
Profit on Operations.....	\$ 90,369	\$ 80,796
Provision for Income Taxes.....	76,884	23,044
Net Profit.....	\$ 13,485	\$ 57,752
Earnings (Deficiency) per Common Share after providing for dividends on Preferred Shares.....	(15.7 cents)	41.2 cents

Consolidated Statement of Source and Application of Funds (Unaudited)

	Six Months Ended June 30, 1974	June 30, 1973
Source of Funds		
Consolidated Net Profit.....	\$ 13,485	\$ 57,752
Add: Depreciation, a non-cash outlay.....	21,673	17,654
Funds provided from operations.....	\$ 35,158	\$ 75,406
Deferred liability assumed on acquisition of subsidiary.....	—	6,250
Total Source of Funds.....	\$ 35,158	\$ 81,656
Application of Funds		
Net addition to Fixed Assets.....	\$ 22,730	\$ 25,102
Acquisition of intangibles on purchase of shares of subsidiary.....	—	74,255
Dividends: Preferred Shares.....	25,680	25,680
Common Shares.....	—	23,345
Paid re Life Insurance, a non-current asset.....	1,537	1,784
Reduction of Deferred Liability.....	1,500	—
Total Application of Funds.....	\$ 51,447	\$ 150,166
Decrease in Working Capital.....	\$ 16,289	\$ 68,510
Working Capital at Beginning of Period.....	1,704,508	1,798,111
Working Capital at End of Period.....	\$1,688,219	\$1,729,601

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

The optimistic forecast contained in the first six months' report was not achieved. In the last half of the year, instead of the usual higher sales volume expected, consumer demand slackened and costs continued their upward trend. As a result the net profit for the year amounted to only \$43,387.

The Beauty Industries Division, which manufactures and distributes baby clothing, had a satisfactory year. The Griffiths-Kerr domestic textile unit also did well. However, sales did not reach budget in the cosmetic division and losses were suffered. Profit margins were reduced on sales of imported textile products due to the decline in value of the Canadian dollar versus the United States dollar.

The sales decline which started in October 1974 has continued into the first quarter of the current year. The division most adversely affected is Griffiths-Kerr, due partially to what has been described, in some parts of the United States textile industry, as "chaotic" conditions. In addition retailers, in an effort to reduce inventories, have very limited "open to buy" positions. This affects sales of all divisions. It is too early in this recession to foresee when increased demand will be felt and thus no reasonable forecast can be made for 1975. It is hoped that by mid-year the outlook will be clarified.

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Turning to the financial statistics, it will be noted that income taxes amount to approximately seventy-five percent of the profit for the year. This was due to heavy taxes on certain profitable operations *was taxed heavily, and* against which we were unable to offset losses suffered in other subsidiary companies. A corporate simplification program has been instituted which will consolidate some of the operations. *and* The tax burden should not be as heavy in the year 1975 as it was in the year 1974. In September 1974 the income debenture held by the Company was redeemed and the monies obtained were largely used to reduce bank loans. In addition an inventory liquidation program which was started in mid 1974 is being carried out and this has also released funds for other corporate purposes. As a result our financial position remains satisfactory.

R. W. FINLAYSON
President

March 31, 1975

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

	1974	1973
CURRENT		
Cash.....	\$ 59,254	\$ 39,048
Short term deposit receipts.....	10,000	—
Investment in income debenture, at cost.....	—	750,000
Accounts receivable.....	933,387	1,101,518
Merchandise inventories, at lower of cost and net realizable value.....	1,437,635	1,330,623
Prepaid expenses.....	113,422	48,333
TOTAL CURRENT ASSETS.....	2,553,698	3,269,522
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost.....	572,503	514,764
Less accumulated depreciation.....	402,686	373,741
TOTAL FIXED ASSETS.....	169,817	141,023
OTHER		
Cash value of life insurance policies.....	55,367	52,442
 Approved on behalf of the Board:		
 R. W. FINLAYSON, <i>Director</i>		
 G. A. BODDY, <i>Director</i>		
	<u>\$2,778,882</u>	<u>\$3,462,987</u>

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the Consolidated Balance Sheet of Finlayson Enterprises Ltd. and Subsidiary Companies as at 31 December 1974 and the Consolidated Statements of Retained Earnings, Profit and Loss and Changes in Financial Position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Companies as at 31 December 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 19 March 1975

DUNWOODY & COMPANY
Chartered Accountants

ENTERPRISES LTD.

COMPANIES

as at 31 December 1974

LIABILITIES

	1974	1973
CURRENT		
Bank indebtedness.....	\$ 350,260	\$ 615,857
Accounts payable and accrued charges.....	642,588	803,496
Income and withholding taxes.....	75,014	82,661
Current portion of long term debt.....	63,000	63,000
TOTAL CURRENT LIABILITIES.....	1,130,862	1,565,014
LONG TERM DEBT, note 2.....	61,498	124,500
	1,192,360	1,689,514
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
2,228,758 6% cumulative preferred shares of par value \$1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value		
Issued and fully paid		
700,353 Preferred shares.....	700,353	855,987
77,817 Common shares.....	281,671	281,671
	982,024	1,137,658
RETAINED EARNINGS.....	604,498	635,815
TOTAL SHAREHOLDERS' EQUITY.....	1,586,522	1,773,473
	\$2,778,882	\$3,462,987

Consolidated Statement of Retained Earnings for the Year Ended 31 December 1974

	1974	1973
BALANCE, BEGINNING OF YEAR.....	\$ 635,815	\$ 648,273
Net profit for year.....	43,387	143,675
	679,202	791,948
Cash dividends paid during the year		
Preferred shares.....	51,359	51,359
Common shares.....	23,345	23,345
Excess of cost of shares of subsidiary over tangible book value—written off.....	—	81,429
	74,704	156,133
BALANCE, END OF YEAR.....	\$ 604,498	\$ 635,815

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss for the Year Ended 31 December 1974

	1974	1973
SALES (net), note 3	\$6,217,836	\$5,690,841
Profit on operations for the year, before accounting for the undernoted items	205,696	264,698
Add: Income from investments	27,141	43,784
	232,837	308,482
Less: Interest on indebtedness not initially maturing within one year	12,059	16,453
Provision for depreciation and amortization of fixed assets	46,808	39,603
	58,867	56,056
PROFIT FOR YEAR, before provision for income taxes	173,970	252,426
Provision for income taxes	130,583	108,751
NET PROFIT FOR YEAR, note 6	\$ 43,387	\$ 143,675
	(0.68)	0.19

Consolidated Statement of Changes in Financial Position
for the Year Ended 31 December 1974

SOURCE OF FUNDS

Operations

Net profit for year	\$ 43,387	\$ 143,675
Depreciation and amortization, items not requiring an outlay of funds	46,808	39,603
FUNDS OBTAINED FROM OPERATIONS	90,195	183,278
Proceeds on disposal of fixed assets	8,528	6,925
Long term debt assumed on acquisition of subsidiary	—	6,250
TOTAL FUNDS OBTAINED	98,723	196,453

APPLICATION OF FUNDS

Acquisition of fixed assets	84,130	69,096
Increase in cash value of life insurance policies	2,925	3,077
Acquisition of intangibles on purchase of shares of subsidiary	—	81,429
Repayment on long term debt	63,002	61,750
Redemption of preferred shares	155,634	—
Dividends paid during year—preferred shares	51,359	51,359
— common shares	23,345	23,345
TOTAL FUNDS APPLIED	380,395	290,056
DECREASE IN CONSOLIDATED WORKING CAPITAL	281,672	93,603
Consolidated working capital, beginning of year	1,704,508	1,798,111
CONSOLIDATED WORKING CAPITAL, END OF YEAR	\$1,422,836	\$1,704,508

FINLAYSON ENTERPRISES LTD.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1974

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.

2. LONG TERM DEBT

	1974	1973
7% unsecured debenture.....	\$120,000	\$180,000
Industrial Development Bank loan.....	4,498	7,500
	<u>124,498</u>	<u>187,500</u>
Current portion.....	63,000	63,000
	<u>\$ 61,498</u>	<u>\$124,500</u>

The 7% unsecured debenture is repayable in equal amounts on the 8th of August in each of the years 1975 and 1976. The debenture is held by a Director of the Company.

The Industrial Development Bank loan is secured by a specific charge on certain equipment and fixtures of a subsidiary as well as a first floating charge on the remainder of the subsidiary's assets. The loan is repayable in monthly instalments of \$250 plus interest at the rate of 9% per annum.

3. CLASSES OF BUSINESS *

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1974	1973
Textiles.....	\$5,127,531	\$4,597,819
Cosmetics and Toiletries.....	1,090,305	1,093,022
	<u>\$6,217,836</u>	<u>\$5,690,841</u>

4. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$2,000 (1973—\$2,000); the aggregate remuneration of the five Officers of the Company as Officers amounted to \$95,500 (1973—five—\$94,875) and one of the Directors and Officers received \$6,000 (1973—\$14,875) from a subsidiary company as an Officer of that Company. Four of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to directors and senior officers amounted to \$247,607 (1973—\$280,279).

5. LOSSES CARRY FORWARD

Losses for taxation purposes of approximately \$295,000 are available in certain of the group companies for application against future years' profits of which approximately \$92,000 expire in 1977, \$36,000 in 1978, and the remainder in 1979.

6. EARNINGS PER COMMON SHARE

	1974	1973
Earnings per common share.....	(\$0.08)	\$1.19

7. FOREIGN EXCHANGE

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1974.

8. CONTINGENT LIABILITY

Certain of the group companies are appealing from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$178,000 including interest for the years 1966 to 1968. No provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.

9. UNFUNDED PENSION BENEFITS

The Company's liability under its employee pension plan for unfunded past service amounted to approximately \$35,000 which is required to be funded in equal annual instalments of approximately \$3,900 over the next nine years.

